

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County, Wisconsin,
for Authority to Increase Water Rates.

3720-WR-107

SURREBUTTAL TESTIMONY OF CARRIE LEWIS ON BEHALF OF THE MILWAUKEE WATER WORKS

1 **Q. Please state your name and business address.**

2 A. Carrie Lewis, Milwaukee Water Works, 841 N. Broadway, Milwaukee WI 53202

3 **Q. Have you previously submitted testimony in this proceeding?**

4 A. Yes, direct testimony and two rounds of rebuttal testimony.

5 **Q. What is the purpose of your surrebuttal testimony?**

6 A. The purpose of this surrebuttal testimony is to comment on issues related to the Revenue
7 Requirement, Cost of Service Study, Rate Design, and Proposed Economic Development Water
8 Rate, and comments from the previous round of supplemental rebuttal testimony.

9 **Q. Do you have an administrative matter to address?**

10 A. Yes. I would like to present as Exhibit 1.19, the Milwaukee Water Works (MWW) Revised Rate
11 Application submitted to the Public Service Commission (PSC) on June 1, 2010, and Exhibit 1.20,
12 the MWW 2nd Revision of the Rate Case Application submitted to the PSC on June 10, 2010, on
13 which the revised Revenue Requirements, Cost of Service Study, and Rate Designs were based.

14 **Q. Do you have comments on the supplemental rebuttal testimony of Mr. Planton?**

15 Yes. Regarding the allocation of contributions in aid of construction, MWW defers to the PSC
16 staff on this matter.

17 Regarding calculation of maximum day to average day ratios, I disagree with some of
18 Mr. Planton's points. I disagree with Mr. Planton and concur with Mr. Behm that actual data, not

1 design data, should be used for the calculation. I disagree that 2007, 2008 and 2009 are
2 anomalous years that should be excluded from the calculation of extra capacity ratios. Rather, I
3 submit that 2007, 2008 and 2009 represent the “new reality” of water usage patterns in
4 Milwaukee’s service area. (Indeed, water sales to June 30, 2010 continue the declining trend,
5 down 2.6% when compared to the first six months of 2009. Through July 30, the 2010 maximum
6 day is 123.9 million gallons and the average day is 103.1 for a ratio of 1.2.) Factors not
7 mentioned by Mr. Planton that further reduce water use and will affect the ratio now and into
8 the future include the increasing use of water efficient fixtures and appliances, MWW’s “Use
9 Water Wisely” outreach programs, and significant operational improvements including the
10 installation of over 2,300 hydrant locking devices (decreasing illegal hydrant opening incidents
11 from 745 to 165 to 52 to 105 in 2006, 2007, 2008 and 2009, respectively). I concur with the
12 maximum day to average day ratio of 1.4.

13 Mr. Planton provides testimony regarding MWW’s level of unaccounted for water.
14 Later in my surrebuttal testimony I will provide additional comments regarding this topic. For
15 now, I will simply point out that MWW’s unaccounted for water is below the PSC allowable
16 threshold of 15%.

17 **Q. Do you have comments on the supplemental rebuttal testimony of Mr. Rothstein?**

18 A. Yes. Mr. Rothstein is critical of the size of the rate increase being requested by MWW and rates
19 proposed by the PSC. It is true that the requested rate increase is larger than what has been
20 requested in recent years, but it is still less than that allowed by the PSC. In its application,
21 MWW strove to mitigate rate increases on water customers, requesting less than the maximum
22 allowable rate of return (7.4% at the time the application was submitted). In fact, MWW
23 submitted a revised rate application to reflect cost reductions in the test year that were
24 unknown at the time the original application was submitted. The previous increases have not
25 been sufficient to sustain the utility. Yes, MWW requested a rate of return of 3.3% in 2007. At

1 the end of 2006, when that request was filed with the PSC, MWW had \$45.3 million of
2 unrestricted net assets, of which about \$30 million was cash. The utility's financial situation is
3 considerably different now. This requested increase was made to return the utility to financial
4 stability so that we can continue to provide high quality water, protecting public health and
5 safety. This is the public interest that is being served by this rate increase.

6 I reiterate previous comments that MWW's selection of cash financing or debt is an
7 internal matter. Mr. Rothstein himself presents that, historically, the cost of equity has been
8 lower than the cost of debt; therefore it was prudent to use equity to finance capital
9 investments. In the long term, water rates would be higher than they otherwise would be due
10 to interest costs related to borrowing. In addition, with little or no debt, MWW and our
11 ratepayers are not subject to interest rate risk.

12 Mr. Rothstein comments on a \$3 million payment to the City of Milwaukee general fund
13 from MWW, and asserts that MWW does not have the discretion to do this. Mr. Rothstein is
14 incorrect. The conditions under which surplus earnings can be transferred to the City of
15 Milwaukee general fund are described in Wisconsin Statutes 66.0811(2) and Milwaukee City
16 Charter Section 14-08. MWW met these conditions as of December 31, 2009. A \$3 million
17 payment to the City of Milwaukee general fund will be made in 2010 on the basis of a 2009
18 year-end surplus as defined by the City of Milwaukee Comptroller's Office. This payment does
19 not factor into the test year calculations for this rate increase application because it is outside of
20 the rate of return calculation. It is my understanding that other municipal public utilities in the
21 region, such as Racine and Kenosha, have made such payments to their cities' general funds and
22 that the former Sturtevant municipal water utility also had a practice of making such payments
23 to its municipal general fund.

1 Mr. Rothstein asserts that the increased cash that will be generated by the rate increase
2 will be available for the City of Milwaukee to claim. The additional cash generated by the rate
3 increase is not an unreasonable amount – it is below the PSC benchmark rate of return – and
4 will be used to cover expenses and capital improvements and begin to rebuild reserves, thus
5 ensuring financial stability.

6 Mr. Rothstein may not be aware that the City of Milwaukee explored the idea of
7 privatizing MWW as part of the city's financial deliberations in late 2008/early 2009. As part of
8 that review, it was decided that the City of Milwaukee would maintain its control and operation
9 of the utility. However, it was determined that a transfer of surplus funds, if available, would be
10 appropriate. While a transfer of \$3 million of surplus funds was budgeted for 2010, it was done
11 based upon projections of sufficient revenue and cost containment. At no time was it decided
12 that a surplus would always be available or fiscally prudent for the financial stability of the
13 utility. In fact, future payments to the City of Milwaukee general fund are not being
14 contemplated at this time. As a public utility operating in the public arena, MWW is obligated to
15 examine options presented by our elected officials. Continuation of MWW as a non-profit
16 public utility also benefits all our ratepayers by providing reasonable rates for the highest quality
17 of water and levels of service.

18 Mr. Rothstein also asserts that MWW is underinvesting in water mains. I will address
19 this comment in my surrebuttal response to Mr. Wojcehowicz's supplemental rebuttal
20 testimony.

21 **Q. Do you have comments on the supplemental rebuttal testimony of Mr. Wojcehowicz?**

22 A. Yes. Regarding the costs of the Automatic Meter Replacement (AMR) project, MWW believes
23 that these costs are appropriately assigned in the current Cost of Service Study, as the costs
24 should be shared by all. MWW's metered water sales were \$50.4 million in 2009. All customers
25 depend on accurate and precise metering of water to ensure that they and the utility receive full

1 value for water bought and sold. Inaccurate or imprecise metering harms all customers, both
2 wholesale and retail. Combined with routine meter maintenance activities, the AMR project will
3 ensure that MWW's revenues are properly collected from all customer classes. Costs are
4 assigned on an "equivalent meter" basis, so costs attributed to smaller meters (such as retail
5 residential) are lower and costs attributed to larger meters (such as meters to wholesale
6 customers) are higher. The costs for the AMR project are accounted for in Attachment 11 (346.2
7 - Meters AMR Communication Equipment) in the original application and are also noted in
8 Attachment 18. Project costs will be capitalized annually.

9 Regarding the cost of the cross-connection inspection program, MWW believes these
10 costs are also appropriately assigned in the Cost of Service Study. This is a state-mandated
11 program that will further safeguard the total community's health. Assuring the absence of cross-
12 connections in a water system benefits all customers, and all should share in the cost. These
13 costs are included in Attachment 10 (PSC 663).

14 Both Mr. Wojcehowicz and Mr. Rothstein comment that MWW is "underinvesting" in
15 infrastructure, primarily in water mains, and that due to that underinvestment, operating and
16 maintenance costs are elevated to the detriment of our customers. I strongly disagree. MWW
17 has a comprehensive water system preventive maintenance program which complements our
18 water main replacement program. Our investment in water treatment plant facilities in the mid-
19 1990s has benefited all our customers with processes that treat water to quality standards that
20 exceed all regulations that have been passed since then and those that are under consideration
21 today. Mr. Wojcehowicz and Mr. Rothstein cite as an example a 177 year renewal period for
22 water mains that are depreciated based upon a 77 year life. The average life compared to
23 depreciated life of water mains is just one way to describe how infrastructure is preserved.
24 Water mains do not instantaneously fail in their entirety on the date that their depreciated

1 value goes to zero. Roughly, replacing one mile of water main costs about \$1 million. An
2 enormous amount of preventive maintenance can be performed for that amount of money.

3 For example, MWW conducts preventive maintenance of our facilities in advance of
4 paving. Roadway paving throughout the MWW service area has been increasing for the past
5 three years. In 2010, this increase in City of Milwaukee spending, combined with stimulus
6 spending, ballooned the miles of roadway paving to 36.5 miles. Previous years experience
7 were 12.4 miles of paving projects in 2009 and 13.7 miles in 2008. For paving projects that are
8 asphalt overlays, MWW locates, clears of any debris, and resets all valve and service boxes that
9 allow access to the curbstops and valve operating nuts. For all roadway reconstruction projects,
10 in addition to the access box maintenance, MWW conducts leak surveys to determine if there
11 are any non-surfacing leaks, which are repaired. MWW also exercises all valves within the limits
12 of the paving project and repairs or replaces as needed. This example of preventive
13 maintenance using operation and maintenance dollars is combined with a capital program that
14 currently replaces about 13 miles of water main per year. A direct result of this two-pronged
15 investment in MWW's system is a reduction in annual water main breaks. In the past decade,
16 the three years with lowest number of main breaks are 2006, 2008 and 2009, and 2010 is on
17 track to be the lowest in the decade.

18 **Q. Do you have comments on the supplemental rebuttal testimony of Mr. Rau?**

19 A. Yes. Regarding the costs for storage, MWW believes that these costs are appropriately assigned
20 in the current Cost of Service Study. Mequon should pay for storage costs just like every other
21 customer. Please see below regarding unaccounted-for water.

22 **Q. Do you have comments on the supplemental rebuttal testimony of Mr. Schrader?**

23 A. Yes. Mr. Schrader states that the payment in lieu of taxes (PILOT) that MWW pays to the City of
24 Milwaukee is unreasonable because it is greater than what it would have been if MWW was

1 private. The PILOT calculation is based on an established formula and the expense is properly
2 accounted for in the test year in accordance with PSC requirements.

3 **Q. Do you have a response to comments on MWW's unaccounted for water?**

4 A. Yes. I have a number of points to make on this topic. The level of MWW's unaccounted for
5 water is noted by a number of witnesses who propose that wholesale customers should receive
6 some sort of adjustment in the Cost of Service Study related to unaccounted for water. MWW
7 strongly disagrees with this proposal and believes that costs for unaccounted for water are
8 correctly dealt with in the current Cost of Service Study.

9 Firstly, MWW's unaccounted for water has been calculated to be about 14% since 2007.
10 This is below the allowable PSC threshold of 15%.

11 Secondly, 14% unaccounted for water represents 5.5 billion gallons of water "lost" in
12 2009. It is improbable that 5.5 billion gallons of water are leaking from the MWW water
13 system—surely there would be surfacing water throughout the service area if this amount of
14 water is really leaking. MWW believes that the calculations for unaccounted for water contain
15 sufficient uncertainties to result in a falsely large value for unaccounted for water. We are
16 examining those calculations. Tests on meters removed from customer premises and on large
17 meters tested on site show that the "water sold" values used in the calculation are highly
18 reliable. Figures for water usage and water loss are estimates and represent a very small
19 proportion of the unaccounted for water. Even if those estimates were off by a factor of two or
20 three, this would still not bring the volume of unaccounted for water down to a probable level.
21 This leads to the summation of water entering the distribution system, and uncertainties that
22 may be associated with that calculation, as a likely source of error. Many of MWW's finished
23 water pumps are very large, and a very small inaccuracy in the measurement of water pumped
24 into the distribution system represents many millions of gallons of water. For example, a 0.01%
25 over-registration of water pumped to the distribution system represents 3.96 billion gallons of

1 water in 2009. MWW will not have definitive results on this matter in time for the rate case
2 decisions to be made.

3 Finally, MWW takes all water leaks seriously. Reports of leaks from all sources (including
4 customers and preventive maintenance related to paving projects) are promptly responded to
5 and repaired, and service area-wide leak surveys are conducted and results acted upon. In
6 addition, MWW devotes a significant effort to ensure that the water service is “off” at vacant
7 properties to prevent water loss due to freezing pipes. MWW does not accept leakage and
8 unaccounted for water. We are committed to locating and repairing any and all leaks to ensure
9 the integrity of the system for the delivery of safe potable water.

10 **Q. What are your comments on Greendale’s request to be exempted from the public fire**
11 **protection charge?**

12 A. Greendale, as every customer, should pay for public fire protection. Yes, Greendale’s emergency
13 storage can support fire flow for four hours—if the tanks are 100% full at the time of the fire.
14 And MWW’s fire protection capacity will not be needed—if the fire is completely suppressed
15 before the reserves are drained. The argument that Greendale can assist Milwaukee to meet
16 emergency conditions in Milwaukee by taking their water from another pressure zone is not
17 relevant. Public fire protection is required to be available everywhere within MWW’s service
18 area; it is not an optional service that a customer may choose to accept. Greendale is within
19 the MWW service area and should pay their share of these costs.

20 **Q. What are your comments on testimony related to the Economic Development Rate?**

21 A. In rebuttal testimony, MWW submitted a number of requests to modify the Economic
22 Development Rate (EDR) as proposed by PSC staff. One request was accepted. We believe the
23 remaining requests still have merit and would prefer that all be incorporated. That
24 notwithstanding, MWW would still like an EDR to be created and made available to our retail
25 service area even without all our requested changes. I reiterate my prior comments that

1 separate wholesale rates should be requested by and developed for those wholesale utilities
2 that desire that an EDR be available to their customers. Those utilities should administer the
3 rate themselves, not by reducing the payments of the wholesale utilities to MWW, as proposed
4 by Mr. Rothstein (SR2.107, lines 4 through SR2.108, line 2).

5 **Q. Do you have a clarification to offer regarding MWW's connections to West Milwaukee?**

6 Yes. West Milwaukee is fully incorporated into the MWW distribution system grid, with
7 interconnections at every intersection between the two systems. This is the same as our
8 interconnections with retail customers.

9 **Q. Do you have a clarification to offer regarding metering of customer demand?**

10 A. Yes. In April 2010, MWW and PSC staff conducted a telephone conversation which included a
11 discussion of some of the changes in the methodology used by PSC staff in the Cost of Service
12 Study. One topic that arose was the need for PSC to make assumptions regarding demand ratios
13 because MWW did not have actual data on customer demand. PSC staff suggested, and I
14 agreed, to look into the use of demand metering as a way to fill this data gap for future rate
15 cases.

16 **Q. Do you have any other comments?**

17 A. Yes. Rate increases are never welcome no matter when they must be enacted and no matter
18 what their size may be. The MWW is diligent in its fiscal responsibility and will continue to
19 perform the vital task of providing safe, abundant drinking water and fire protection in the most
20 cost effective and efficient manner. MWW continues to trim expenses while maintaining a
21 robust infrastructure with little debt. MWW will continue to operate a fiscally prudent, highly
22 efficient utility that produces high quality, sufficient water to all of our customers in all rate
23 classes.